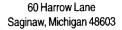
AUDITING PROCEDURES REPORT Issued under P.A. 2 of 1968, as amended. Filing is mandatory. Local Government Name Local Government Type YILLAGE OF NORTH BRANCH LAPEER Village Other Township City Date Accountant Report Submitted to State: Opinion Date Audit Date We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Beart (2) Reporting Format for Financial Statements for Counties and Local Units of Government Department of Treasury. JUN 3 0 2004 We affirm that: 1. We have complied with the Bulletin for the Audits of Local Units of Government in Michigan as revised. LOCAL AUDIT & FINANCE DIV 2. We are certified public accountants registered to practice in Michigan. We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations You must check the applicable box for each item below. 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained yes earnings (P.A. 275 of 1980). 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of ves 1968, as amended). 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). Not To Be Required We have enclosed the following: Enclosed Forwarded PL 31 The letter of comments and recommendations. Reports on individual federal financial assistance programs (program audits). UNDER SEPARATE COVER Single Audit Reports (ASLGU). Certified Public Accountant (Firm Name) BERTHIAUME 48613 State<sub>M/</sub> Street Address HARROW Accountant Signature

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## INDEPENDENT AUDITORS' REPORT

To the Village Council Village of North Branch Lapeer County, Michigan

We have audited the accompanying general purpose financial statements of the Village of North Branch, as of and for the year ended February 29, 2004, as listed in the table of contents. These financial statements are the responsibility of the management of the Village of North Branch. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the general fixed assets group of accounts, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of North Branch at February 29, 2004, and the results of its operations and changes in financial position of its proprietary fund types and similar trust fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued a report, dated April 30, 2004, on our consideration of the Village of North Branch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying combining and individual fund financial statements and other financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of North Branch. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berthiaume & Co.

April 30, 2004

## ALL FUND TYPES, ACCOUNT GROUP, AND DISCRETELY PRESENTED COMPONENT UNIT

## **COMBINED BALANCE SHEET**

February 29, 2004

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND <u>TYPE</u>			DUCIARY FUND TYPE	
		General		Special Revenue	j	Enterprise	,	Trust & Agency
ASSETS:  Cash and equivalents Accounts receivable Due from other governmental units Due from other funds Prepaid expense Restricted assets—cash & equivalents Property, plant, and equipment, net Land held for development Amount to be provided for retirement of long-term debt	\$	330,536 - 52,724 3,145 - -	\$	413,572 5,634 7,802 - - - -	\$	688,115 23,498 - - 98,008 2,409,793 434,973	\$	35,416 - - - - - -
Total assets	\$	386,405	\$	427,008	\$	3,654,387	\$	35,416
LIABILITIES & FUND EQUITY:  Liabilities: Accounts payable Accrued expense Due to other funds Deposits payable Revenue bonds payable Compensated absences payable	\$	7,050 - 33,072 - -	\$	1,897 - 2,360 - - - 4,257	\$	22,000 17,855 - 1,683,532	\$	2,907 - 32,509 - - - 35,416
Total liabilities  Fund Equity: Contributed capital Retained Earnings: Reserved Unreserved – Undesignated Fund Balances: Reserved Unreserved – Undesignated		40,122 - - 3,145 343,138		- - - 422,751		1,723,387 1,061,795 98,008 771,197		
Total fund equity  Total liabilities & fund equity	<u> </u>	346,283 386,405	\$	422,751	<u> </u>	1,931,000 3,654,387		35,416
Total Havindos & Land oquity		200,.00		,	<u>_</u>	-,,		,

	CCOUNT		PRIMARY	CO.	MPONENT	Ri	EPORTING
<u>C</u>	<u>FROUP</u>	GO	<u>VERNMENT</u>		<u>UNIT</u>		<u>ENTITY</u>
(	General		Totals	D	owntown		Totals
Lo	ng-Term	(M	Iemorandum		velopment	(M	emorandum
	Debt		Only)	. A	luthority		Only)
\$	-	\$	1,467,639	\$	114,666	\$	1,582,305
	-		29,132		-		29,132
	-		7,802		29,718		37,520
	-		52,724		-		52,724
	•		3,145		-		3,145
	-		98,008		-		98,008
	-		2,409,793		-		2,409,793
	-		434,973		-		434,973
	1,845		1,845		_		1,845
\$	1,845	\$	4,505,061	\$	144,384	\$	4,649,445
\$	-	\$	11,854	\$	-	\$	11,854
	-		22,000		-		22,000
	-		52,724		-		52,724
	-		33,072		-		33,072
	_		1,683,532		-		1,683,532
	1,845		1,845		-		1,845
	1,845		1,805,027		-		1,805,027
	-		1,061,795		-		1,061,795
	_		98,008		_		98,008
	-		771,197		-		771,197
	_		3 145		-		3,145
			3,145 765.889		- 144,384		3,145 910,273
	-		3,145 765,889 2,700,034		- 144,384 -		3,145 910,273 2,844,418

## ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

## COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Part		GOVERNMENTAL FUND TYPES		PRIMARY GOVERNMENT	COMPONENT UNIT	<u>ENTITY</u>
Property taxes		General		,	. =	•
Licenses and permits   4,583   - 4,583   - 4,583   1						
Nate grants   State			\$ 64,370		\$ 91,873	
State grants	<u>*</u>	4,583	-	4,583	-	4,583
Contributions from local units	•	110 100	01.260	100 550		100 550
Charges for services   25,248   44,490   69,738   - 69,738   Fines and forfeitures   2,080   -			81,360		-	
Fines and forfeitures         2,080         -         2,080         -         2,080           Interest and rentals         56,141         4,932         61,073         273         61,346           Other revenue         16,420         2,127         18,547         648         19,195           Total revenues         418,280         197,279         615,559         92,794         708,353           EXPENDITURES:           General government         100,951         -         100,951         -         100,951           Public safety         179,978         -         179,978         -         179,978           Public works         90,819         138,403         229,222         -         229,222           Community and economic development         1,001         -         1,001         62,315         63,316           Recreation and culture         2,968         1,022         3,990         -         3,990           Other         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         (13,491)         56,412         42,921         30,		•	44.400	•	-	•
Interest and rentals			44,490		-	
Other revenue         16,420         2,127         18,547         648         19,195           Total revenues         418,280         197,279         615,559         92,794         708,353           EXPENDITURES:           General government         100,951         -         100,951         -         100,951           Public safety         179,978         -         179,978         -         179,978           Public works         90,819         138,403         229,222         -         229,222           Community and economic development         1,001         -         1,001         62,315         63,316           Recreation and culture         2,968         1,022         3,990         -         3,990           Other         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES           (USES):         -         466         466         -         466           Transfers from other funds         -			4.022		272	
Total revenues		•				
EXPENDITURES: General government 100,951 - 100,951 - 100,951 Public safety 179,978 - 179,978 - 179,978 Public works 90,819 138,403 229,222 - 229,222 Community and economic development 1,001 - 1,001 62,315 63,316 Recreation and culture 2,968 1,022 3,990 - 3,990 Other 21,735 - 21,735 - 21,735 Capital outlay 34,319 1,442 35,761 - 35,761  Total expenditures 431,771 140,867 572,638 62,315 634,953  Excess (deficiency) of revenues over (under) expenditures (13,491) 56,412 42,921 30,479 73,400  OTHER FINANCING SOURCES (USES): Transfers from other funds - 466 466 - 466 Transfers to other funds (466) - 466 - 466 Total other financing sources (uses) (466) 466  Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (13,957) 56,878 42,921 30,479 73,400  Fund balance, beginning of year-restated 360,240 365,873 726,113 113,905 840,018						
Community and economic development   100,951   - 100,951   - 100,951   - 179,978   - 179	1 our 10 oraco		13.,	0.10,000	,,,,	
Community and economic development   100,951   - 100,951   - 100,951   - 179,978   - 179	EXPENDITURES:					
Public safety         179,978         -         179,978         -         179,978           Public works         90,819         138,403         229,222         -         229,222           Community and economic development         1,001         -         1,001         62,315         63,316           Recreation and culture         2,968         1,022         3,990         -         3,990           Other         21,735         -         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         431,771         140,867         572,638         62,315         634,953           Excess (deficiency) of revenues over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES           USES):           Transfers from other funds         -         466         466         -         466           Total other financing sources (uses)         (466)         -         (466)         -         -         -           Excess (deficiency) of revenues and other uses         (13,957)         56,878 </td <td></td> <td>100,951</td> <td>-</td> <td>100.951</td> <td>_</td> <td>100.951</td>		100,951	-	100.951	_	100.951
Public works         90,819         138,403         229,222         -         229,222           Community and economic development         1,001         -         1,001         62,315         63,316           Recreation and culture         2,968         1,022         3,990         -         3,990           Other         21,735         -         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         431,771         140,867         572,638         62,315         634,953           Excess (deficiency) of revenues over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES (USES):           Transfers from other funds         -         466         466         -         466           Transfers from other funds         -         466         -         -         466           Total other financing sources (uses)         (466)         -         -         -         -           Excess (deficiency) of revenues and other uses         (13,957)         56,878         42,921         30,479         73,400<					_	
Community and economic development         1,001         -         1,001         62,315         63,316           Recreation and culture         2,968         1,022         3,990         -         3,990           Other         21,735         -         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         431,771         140,867         572,638         62,315         634,953           Excess (deficiency) of revenues over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES (USES):           Transfers from other funds         -         466         466         -         466           Transfers to other funds         (466)         -         (466)         -         466           Total other financing sources (uses)         (466)         466         -         -         -           Excess (deficiency) of revenues and other uses         (13,957)         56,878         42,921         30,479         73,400           Fund balance, beginning of year-restated         360,240         365,873         726,113			138,403		_	
Recreation and culture         2,968         1,022         3,990         -         3,990           Other         21,735         -         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         431,771         140,867         572,638         62,315         634,953           Excess (deficiency) of revenues over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES (USES):           Transfers from other funds         -         466         466         -         466           Transfers to other funds         -         466         466         -         466           Total other financing sources (uses)         (466)         466         -         -         -           Excess (deficiency) of revenues and other sources over (under) expenditures and other uses         (13,957)         56,878         42,921         30,479         73,400           Fund balance, beginning of year–restated         360,240         365,873         726,113         113,905         840,018		•	-		62.315	
Other         21,735         -         21,735         -         21,735           Capital outlay         34,319         1,442         35,761         -         35,761           Total expenditures         431,771         140,867         572,638         62,315         634,953           Excess (deficiency) of revenues over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES (USES):         Transfers from other funds         -         466         466         -         466           Transfers from other funds         (466)         -         (466)         -         466           Total other financing sources (uses)         (466)         466         -         -         -           Excess (deficiency) of revenues and other sources over (under) expenditures and other uses         (13,957)         56,878         42,921         30,479         73,400           Fund balance, beginning of year-restated         360,240         365,873         726,113         113,905         840,018		•	1.022		,	
Capital outlay       34,319       1,442       35,761       -       35,761         Total expenditures       431,771       140,867       572,638       62,315       634,953         Excess (deficiency) of revenues over (under) expenditures       (13,491)       56,412       42,921       30,479       73,400         OTHER FINANCING SOURCES (USES):         Transfers from other funds       -       466       466       -       466         Transfers to other funds       (466)       -       (466)       -       -       466         Total other financing sources (uses)       (466)       466       -       -       -       -         Excess (deficiency) of revenues and other sources over (under) expenditures and other uses       (13,957)       56,878       42,921       30,479       73,400         Fund balance, beginning of year-restated       360,240       365,873       726,113       113,905       840,018			-,		_	
Excess (deficiency) of revenues over (under) expenditures (13,491) 56,412 42,921 30,479 73,400  OTHER FINANCING SOURCES (USES):  Transfers from other funds - 466 466 - 466  Transfers to other funds (466) - (466) - (466)  Total other financing sources (uses) (466) 466  Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (13,957) 56,878 42,921 30,479 73,400  Fund balance, beginning of year-restated 360,240 365,873 726,113 113,905 840,018	Capital outlay		1,442		-	
over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES           (USES):         Transfers from other funds         -         466         466         -         466           Transfers to other funds         (466)         -         (466)         -         (466)           Total other financing sources (uses)         (466)         466         -         -         -           Excess (deficiency) of revenues and other sources over (under) expenditures and other uses         (13,957)         56,878         42,921         30,479         73,400           Fund balance, beginning of year-restated         360,240         365,873         726,113         113,905         840,018	Total expenditures	431,771	140,867	572,638	62,315	634,953
over (under) expenditures         (13,491)         56,412         42,921         30,479         73,400           OTHER FINANCING SOURCES           (USES):         Transfers from other funds         -         466         466         -         466           Transfers to other funds         (466)         -         (466)         -         (466)           Total other financing sources (uses)         (466)         466         -         -         -           Excess (deficiency) of revenues and other sources over (under) expenditures and other uses         (13,957)         56,878         42,921         30,479         73,400           Fund balance, beginning of year-restated         360,240         365,873         726,113         113,905         840,018	Excess (deficiency) of revenues					
(USES):         Transfers from other funds       -       466       466       -       466         Transfers to other funds       (466)       -       (466)       -       -       (466)         Total other financing sources (uses)       (466)       466       -       -       -       -         Excess (deficiency) of revenues and other sources over (under) expenditures and other uses       (13,957)       56,878       42,921       30,479       73,400         Fund balance, beginning of year-restated       360,240       365,873       726,113       113,905       840,018		(13,491)	56,412	42,921	30,479	73,400
Transfers to other funds         (466)         -         (466)         -         (466)           Total other financing sources (uses)         (466)         466         -         -         -           Excess (deficiency) of revenues and other sources over (under) expenditures and other uses         (13,957)         56,878         42,921         30,479         73,400           Fund balance, beginning of year-restated         360,240         365,873         726,113         113,905         840,018						
Total other financing sources (uses) (466) 466		-	466	466	-	466
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses (13,957) 56,878 42,921 30,479 73,400  Fund balance, beginning of year-restated 360,240 365,873 726,113 113,905 840,018	Transfers to other funds	(466)	<u>-</u>	(466)		(466)
other sources over (under) expenditures and other uses       (13,957)       56,878       42,921       30,479       73,400         Fund balance, beginning of year–restated       360,240       365,873       726,113       113,905       840,018	Total other financing sources (uses)	(466)	466		-	•
and other uses (13,957) 56,878 42,921 30,479 73,400 Fund balance, beginning of year-restated 360,240 365,873 726,113 113,905 840,018						
	` ' -	(13,957)	56,878	42,921	30,479	73,400
Fund balance, end of year \$ 346,283 \$ 422,751 \$ 769,034 \$ 144,384 \$ 913,418	Fund balance, beginning of year-restated	360,240	365,873	726,113	113,905	840,018
	Fund balance, end of year	\$ 346,283	\$ 422,751	\$ 769,034	\$ 144,384	\$ 913,418

### GENERAL AND SPECIAL REVENUE FUNDS

## COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL

		G	<u>EN</u>	ERAL FU	ND		_	SPECIA	1L .	<u>REVENUE</u>	FU	NDS
					F	Variance Tavorable					Fa	ariance vorable
		Budget		Actual	(Ur	ıfavorable	<u>)                                    </u>	Budget		Actual (U	nfav	orable)
REVENUES:												
Property taxes	\$		\$	161,551	\$	(13,699)	\$	57,241	\$	64,370	\$	7,129
Licenses and permits		3,300		4,583		1,283		-		-		-
Intergovernmental:		121.072		110 100		(12.074)		CO 020		01.260		10 201
State grants Contributions from local units		131,072 32,000		118,198 34,059		(12,874) 2,059		69,039		81,360		12,321
Charges for services		28,000		25,248		(2,752)		- 44,491		- 44,490		(1)
Fines and forfeitures		3,500		2,080		(2,732) $(1,420)$		1,050		44,430		(1,050)
Interest and rentals		44,100		56,141		12,041		1,974		4,932		2,958
Other revenue		2,000		16,420		14,420		6,100		2,127		(3,973)
Total revenues		419,222		418,280		(942)		179,895		197,279		17,384
Total Tovellues	_	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		.10,200		(> .=)		277,070				
EXPENDITURES:												
General government		111,381		100,951		10,430		-		-		-
Public safety		183,520		179,978		3,542		-		-		-
Public works		92,636		90,819		1,817		167,546		138,403		29,143
Community and economic development		2,050		1,001		1,049		-		-		-
Recreation and culture		3,039		2,968		71		2,135		1,022		1,113
Other		22,000		21,735		265		-		-		-
Capital outlay		33,866		34,319		(453)		3,050		1,442		1,608
Total expenditures		448,492		431,771		16,721		172,731	,	140,867		31,864
Excess (deficiency) of revenues												
over (under) expenditures	_	(29,270)		(13,491)		15,779		7,164		56,412		49,248
OTHER FINANCING SOURCES (USES):												
Transfers from other funds		-		-		_		466		466		-
Transfers to other funds		(915)		(466)		449		_		-		-
Total other financing sources (uses)		(915)	-	(466)		449		466		466		
Excess (deficiency) of revenues and other sources over (under) expenditures and												
other uses		(30,185)		(13,957)		16,228		7,630		56,878		49,248
Fund balance, beginning of year-restated		360,240		360,240				365,873		365,873		-
Fund balance, end of year	\$	330,055	\$	346,283	\$	16,228	\$	373,503	\$	422,751	\$	49,248

## ALL PROPRIETARY FUND TYPES

## COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

	_ E	nterprise
OPERATING REVENUES:		
Charges for services	\$	236,046
Total operating revenues		236,046
OPERATING EXPENSES:		
Personnel		54,651
Fringe benefits		23,218
Supplies		13,851
Contracted and professional services		10,760
Administrative expense		10,500
Education and training		384
Printing and publications		192
Repair and maintenance		6,193
Utilities		9,827
Equipment rental		21,433
Other expenses		253
Depreciation		47,499
Total operating expenses	<del></del>	198,761
OPERATING INCOME (LOSS)		37,285
NON-OPERATING REVENUES (EXPENSES):		
Interest income		10,911
Interest expense		(55,469)
State grants		748
Other revenue contribution from Downtown Development Authority		52,695
Total non-operating revenues (expenses)		8,885
Net income (loss)		46,170
Retained earnings, beginning of year		823,035
Retained earnings, end of year	\$	869,205

## ALL PROPRIETARY FUND TYPES

## COMBINED STATEMENT OF CASH FLOWS

CARL EL ONG PROMODER A ELING A CENTURE	Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES:	ф 27.00 <i>г</i>
Operating income (loss)  Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	\$ 37,285
Depreciation	47,499
Change in operating assets and liabilities which (used) provided cash:	,
Accounts receivable	5,066
Accrued expenses payable	8,193
Net cash provided by (used in) operating activities	98,043
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of fixed assets	(714,743)
Sale of assets	25,165
Proceeds of long-term debt	714,743
Principal paid on long-term debt	(20,000)
Interest paid on long-term debt	(55,469)
State grants received	748
Contribution from Downtown Development Authority	52,695
Net cash provided by (used for) capital and related financing activities	3,139
CASH FLOWS FROM INVESTING ACTIVITIES:	
Receipt of interest	10,911
Net cash provided by (used for) investing activities	10,911
Net increase (decrease) in cash and equivalents	112,093
Cash balance, beginning of year	674,030
Cash balance, end of year	\$ 786,123

### NOTES TO FINANCIAL STATEMENTS

February 29, 2004

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of North Branch conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

#### REPORTING ENTITY:

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village (the primary government) and its component unit. The component unit discussed below is included in the Village's reporting entity because of the significance of its operational or financial relationship with the Village.

### **DISCRETELY PRESENTED COMPONENT UNIT:**

The component unit columns in the combined financial statements include the financial data of the Village's component unit. This following unit is reported in a separate column to emphasize that it is legally separate from the Village:

**Downtown Development Authority** – The members of the governing board of the Downtown Development Authority are appointed by the Village board. The budgets and expenditures of the Downtown Development Authority must be approved by the Village board. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete separate financial statements of the Downtown Development Authority are not prepared.

#### **BASIS OF PRESENTATION - FUND ACCOUNTING:**

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report, into five generic fund types and three broad fund categories as follows:

#### **Governmental Funds:**

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

**Debt Service Funds** - Debt Service Funds, if any, are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Projects Funds, if any, are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

### NOTES TO FINANCIAL STATEMENTS - continued

February 29, 2004

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### **Proprietary Funds:**

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability, or other purposes.

#### **Account Group:**

General Long-Term Debt Account Group - This account group represents the balance of general obligation long-term debt which is not recorded in proprietary funds.

#### **BASIS OF ACCOUNTING:**

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include taxpayer-assessed income, state and federal sources, and intergovernmental revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, provided the liability normally would be liquidated with expendable available financial resources. The major exception to this general rule is principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

All proprietary funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

The modified accrual basis of accounting is followed for all funds except the enterprise (Sewer, Water and Industrial Development Funds) and internal service (Equipment Fund) funds, which use the accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized in the year in which they become available and measurable, and expenditures are recognized in the year in which the liability is incurred.

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### **CASH AND CASH EQUIVALENTS:**

Cash on hand, demand deposits, certificates of deposit, savings accounts, and all short-term investments that are highly liquid and have an original maturity of three months or less are considered to be cash equivalents.

#### **INVESTMENTS:**

Investments, if any, are stated at fair value.

#### **RECEIVABLES:**

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amounts would be immaterial. The Village has followed the policy of not recording state revenues as receivables even though received within sixty (60) days after year end. Also, the Village has not recorded a receivable in the Enterprise Funds for earned but unbilled charges for service. The effect on financial position and results of operations is considered immaterial.

#### **INVENTORY:**

Inventory, if any, held by the Enterprise Funds are valued at cost on the first-in, first-out basis. Inventories of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost of such inventories has been stated as an expenditure at the time of purchase. The Enterprise Funds report no significant inventory held as of year end.

#### DUE TO AND DUE FROM OTHER FUNDS:

During the course of its operations, the Village has numerous transactions between funds and the component unit to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds and the component unit had not been paid or received as of fiscal year end, balances of interfund and component unit accounts receivable or payable have been recorded.

#### FIXED ASSETS AND DEPRECIATION:

Fixed assets in the Enterprise Funds are depreciated using the straight-line method over the estimated useful lives of the assets. Additions, improvements, and major replacements are capitalized at cost. Maintenance, repairs, and minor replacements are charged to expenses as incurred.

Purchases of fixed assets for all other funds are recorded as expenditures in their respective funds at the time of purchase. A General Fixed Assets Group of Accounts, which is required by generally accepted accounting principles, has not been established.

### NOTES TO FINANCIAL STATEMENTS - continued

February 29, 2004

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

#### LONG-TERM DEBT:

Long-term liabilities to be funded by governmental funds are reported in the General Long-Term Debt Account Group. Long-term debt obligations to be funded by proprietary funds are recorded as a liability in the respective fund.

### **FUND EQUITY:**

The unreserved undesignated fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represents that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spending resources. Contributed capital is not amortized to retained earnings for depreciation on fixed assets acquired with federal or state grants.

#### **EMPLOYEE SICK TIME:**

The Village has a policy of allowing employees to accrue unused sick time up to a maximum of 720 hours. Upon termination, employees with ten (10) years of service are paid for 50% of their remaining unused maximum sick time.

#### **PROPERTY TAXES:**

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14.

Real property taxes not collected as of October 1 are turned over to Lapeer County for collection, which advances the Village 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer. The assessed taxable value of real and personal property located in the Village at December 31, 2002 totaled \$19,209,509. The tax levy for 2003 was based on a millage rate of 10.7023 for general operating purposes and 4.2808 for municipal streets. The 2003 Village levy, before DDA capture, was \$205,587 for general operations and \$82,231 for municipal streets.

#### **INTERFUND TRANSFERS:**

During the course of normal operations, the Village has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by Village management.

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

## NOTE 2: EXCESSIVE OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provided that local unit shall not incur expenditures in excess of the amount appropriated. The Village adopted budgets on a basis consistent with generally accepted accounting principles (GAAP) for the General and Special Revenue Funds. The approved budgets of the Village were adopted to the activity level. Budgeted amounts are as originally adopted, or as amended by the Village Council.

During the year ended February 29, 2004, the Village did not incur expenditures in the Governmental Funds which were in excess of the amounts appropriated.

### **NOTE 3: CASH AND CASH EQUIVALENTS**

The Village's deposits at February 29, 2004 are included on the balance sheet under the following classifications:

#### **BALANCE SHEET CLASSIFICATION**

	Cash and Cash Equivalents	1	Restricted Assets
Deposits - Bank Petty Cash	\$ 1,467,389 250	\$	98,008
Total	\$ 1,467,639	\$	98,008

#### **DEPOSITS:**

At February 29, 2004, the book value of the Village's deposits, consisting primarily of demand deposits, certificates of deposits and other cash equivalents, was \$1,565,397 with a corresponding bank balance of \$1,551,551. Village deposits are partially insured by the Federal Deposit Insurance Corporation. Of the bank's balance, approximately \$298,008 is insured (credit risk Category #1) and the remaining \$1,253,543 is uninsured and uncollateralized (credit risk Category #3).

The cash deposit balance of the component unit, North Branch Downtown Development Authority, of \$114,666 is insured by the FDIC for \$100,000 and the remaining \$14,666 is uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In addition, the laws of the State of Michigan do not provide for collateralization of bank deposits. As a result, the Village evaluates each financial institution it deposits funds with and assesses the level or risk of each institution; only those with an acceptable estimated risk level are used as depositories. The Village deposits are in accordance with statutory authority.

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

## NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

		terfund ceivable			terfund ayable
General	\$	52,724	Solid Waste Fund Water Fund Payroll Fund	\$	2,360 17,855 32,509
	<u>\$</u>	52,724		<u>\$</u>	52,724

## **NOTE 5: FIXED ASSETS**

A summary of proprietary fund type property, plant, and equipment at February 29, 2004 follows:

	 Water Fund	 Sewer Fund	Depreciable Life-Years
Land and Improvements Machinery and equipment Pump Station Water System Sewer System	\$ 61,835 20,254 - 2,195,035	\$ 19,953 17,599 102,554 - 496,783	10-50 25 50 50
Total Fixed Assets Accumulated Depreciation	 2,277,124 (184,226)	 636,889 (319,994)	
Net Fixed Assets	\$ 2,092,898	\$ 316,895	
Depreciation expense for the year	\$ 33,276	\$ 14,223	

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

## NOTE 6: OTHER ASSETS - LAND HELD FOR DEVELOPMENT

The Water Fund account, "Land Held for Development" with a balance of \$434,973 represents the Water Fund's balance of costs invested in improvements to a Village Industrial Park. These improvements are not being depreciated because the lots are being held for sale. Future proceeds from the sale of the Industrial Park lots will first be used to reduce this Water Fund asset balance to zero. Future Industrial Park lot sales in excess of the Water Fund's investment in the improvements will be recognized as revenue in the year of sale. Proceeds from Industrial Park lot sales of \$25,165 in year ended February 29, 2004 have been credited to this account.

### **NOTE 7: LONG-TERM DEBT**

### **GENERAL LONG-TERM DEBT**

General long-term debt consists of the following:

	 Balance 3/1/03	 Additions	L	Deductions	 Balance 2/29/04
Accumulated Sick Pay	\$ 1,531	\$ 314	\$	<del>-</del>	\$ 1,845
PROPRIETARY DEBT					
Proprietary debt consists of the following:					
1995 Lapeer County Water System Bonds. The bonds bear interest at rates varying from 5.0% to 7.5% payable semi-annually in May and November each year thru November 1, 2019	\$ 560,000*	\$ -	\$	20,000	\$ 540,000
2002 Water Supply System Revenue Bonds. The bond bears interest at 2.5% payable semi- annually in April and October each year thru October 1, 2003; partial proceeds received in	420 700	714 742			1 142 522
2002-2003.	 428,789	714,743		<u> </u>	 1,143,532
Total Propriety Fund Debt	\$ 988,789	\$ 714,743	\$	20,000	\$ 1,683,532

<sup>\*</sup>See footnote #16 regarding restatement of beginning balance.

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

The Village DDA, in accordance with an agreement with the Village, was providing funding to the Water Fund for the annual debt payments on the 1996 Water Fund bank loan which was paid off this year.

The annual requirements to pay all debt outstanding (except sick time) as of February 29, 2004, including interest payments of \$609,737 are as follows:

Fiscal Year Ended February	2002 Water Revenue Bonds*	1995 Water Revenue Bonds	Total
2005	\$ 86,750	\$ 51,685	\$ 138,435
2006	85,375	50,655	136,030
2007	84,000	49,615	133,615
2008	82,625	53,555	136,180
2009	86,250	52,205	138,455
2010	84,750	50,818	135,568
2011	83,250	54,393	137,643
2012	86,750	57,653	144,403
2013	85,125	55,588	140,713
2014	83,500	53,488	136,988
2015	86,875	56,388	143,263
2016	85,125	53,988	139,113
2017	83,375	56,568	139,943
2018	86,625	53,988	140,613
2019	84,750	56,100	140,850
2020	82,875	53,050	135,925
2021	86,000	•	86,000
2022	84,000	-	84,000
2023	82,000	<u>-</u>	82,000
	\$ 1,610,000	\$ 859,737	\$ 2,469,737

<sup>\*</sup> This is the schedule to re-pay the entire \$1,320,000 of 2002 Bonds. Partial proceeds of \$1,143,532 have been received as of February 29, 2004.

## NOTE 8: SUBSEQUENT EVENT – BOND ISSUE

On September 5, 2002 the Village Council approved a resolution declaring the Village's intent to issue revenue bonds in the amount of \$1,320,000 to cover expenses incurred for construction of a Water Project. As of February 29, 2004, \$1,143,532 of these bonds have been used.

## NOTES TO FINANCIAL STATEMENTS - continued

February 29, 2004

## NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

	_	Sewer Fund	 Water Fund	Totals
Operating revenues	\$	82,797	\$ 153,249	\$ 236,046
Depreciation expense		14,223	33,276	47,499
Operating income (loss)		8,748	28,537	37,285
Operating grants, entitlements, and shared revenues		-	748	748
Operating interfund transfers in (out)		-		-
Tax revenues		-	-	_
Net income (loss)		9,922	36,248	46,170
Current capital contributions		_	_	· -
Property, Plant, and Equipment net additions (deletions)		-	714,743	714,743
Net working capital		119,983	551,775	671,758
Total assets		436,878	3,217,509	3,654,387
Bonds and other long-term debt outstanding		•	1,683,532	1,683,532
Amounts of this debt payable solely from operating revenues		-	1,683,532	1,683,532
Total equity		436,878	1,494,122	1,931,000

#### NOTE 10: DEFINED CONTRIBUTION PENSION PLAN

The Village has a defined contribution pension plan. All full-time employees as well as the Clerk and Treasurer are covered under the plan. The Village contributes 5% of each covered employee's earnings to the plan. The Village's contribution for the year ended February 29, 2004 was \$13,884 which was entirely paid during the year.

### **NOTE 11: DEFERRED COMPENSATION PLAN**

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The Village adopted GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The Village has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the Village's financial statements.

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

## NOTE 12: POST EMPLOYMENT BENEFITS

The Village currently does not provide post employment benefits other than its pension plan.

#### **NOTE 13: RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its liability workers compensation and property risk, by participating in Michigan Municipal Liability and Property Pool, a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium for its insurance coverage. The Michigan Municipal Liability and Property Pool is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

## **NOTE 14: TOTAL - MEMORANDUM ONLY**

The combined financial statements of fund types and account groups present total columns for the year ended February 29, 2004, which aggregate the columnar statements by fund type and account group. These columns are presented only for comparative purposes and should not be construed as presenting consolidated financial information.

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

#### NOTE 15: RESERVES AND RESTRICTED ASSETS

The Village's ordinances authorizing issuance of bonds require that specific accounts be established and monies deposited as follows:

#### PROPRIETARY DEBT:

#### 2002 Revenue Bonds

**Receiving Account** – All water receipts are initially deposited into this account.

*Operation and Maintenance Account* - Periodic transfers are to be made to cover upcoming administrative, operating, and maintenance expenses.

**Bond and Interest Redemption Account** – Monthly transfers are to be made equal to one sixth (1/6) the next interest payment due plus one twelfth (1/12) of the next principal payment due.

At February 29, 2004, the Village had established these accounts and had restricted cash as follows:

#### PRIMARY GOVERNMENT:

			Amount Funded in Restricted Cash and Cash Equivalents						
	Feb. 28, 2003		<u>REQUIREMENTS</u> Additions (Deletions)		I	reb. 29, 2004	Feb. 29, 2004		
Water Fund:		-							
Bond and Interest Redemption account	\$	3,000	\$	29,732	\$	32,732	\$	98,008	

## SUMMARY OF DESIGNATED AND RESERVED FUND BALANCES/RETAINED EARNINGS

Reserved fund balances/retained earnings are summarized as follows:

	General Fund			Water Fund		
Reserved for prepaid expense Reserved for debt service	\$	3,145	\$	98,008		
	\$	3,145	\$	98,008		

## **NOTES TO FINANCIAL STATEMENTS - continued**

February 29, 2004

## NOTE 16: RESTATED PRIOR YEAR FUND BALANCE/EQUITY

The Village has elected to properly recognize the January and February motor vehicle highway funds (Act 51) as revenue in the year earned. The effect on the beginning fund balance is as follows:

	Major Streets			Local Streets		
Fund balance previously stated, February 28, 2003	\$	138,678	\$	78,945		
Prior period adjustment to recognize receivable from State of Michigan for January and February 2003 motor vehicle highway funds		10,094		3,358		
Fund balance, as restated, February 28, 2003	\$	148,772	\$	82,303		

Also, the Village corrected an accounting error made in a prior year on the Water Fund to properly classify some of the 1995 Lapeer County Water Bond proceeds. The effect was on beginning balances, as a result of this adjustment, follows:

	WATER FUND					
	1995 Water System Bonds Contribu Payable Capito					
Balance, previously stated, February 28, 2003	\$	424,968	\$	996,382		
Adjustment to reclassify bond proceeds received in a prior year		135,032		(135,032)		
Balance, as restated, February 28, 2003	\$	560,000	\$	861,350		

#### NOTE 17: CONTRACT WITH DDA FOR WATER BOND PAYMENTS

The Village and the Village Downtown Development Authority entered into an agreement March 20, 2003. The agreement states that the DDA shall pay to, or reimburse, the Village each year for payments the Village makes to the County on the 1995 Water Revenue Bonds. In accordance with this agreement, for the year ended February 29, 2004, the DDA paid \$52,695 to the Village.

SUPPLEMENTAL DATA	

## GENERAL FUND

## STATEMENT OF REVENUES

REVENUES:	
Current Taxes:	
Property taxes	\$ 160,952
Trailer tax	380
Penalties and interest on taxes	219
	161,551
Licenses and Permits:	
Business licenses and permits	150
Non-business license and permits	1,615
CATV franchise fees	2,818
	4,583
State Grants:	
Liquor license fees	770
State revenue sharing	116,777
Police grant	651
	118,198
Contributions From Other Units:	
Contribution from School District - Police coverage	34,059
· ·	34,059
Charges for Services:	
Charges for services – other	100
Charges to other funds/departments	25,148
6-1	
Figure 1E CV	25,248
Fines and Forfeitures: Ordinance fines	140
Fines and forfeituresother	143
rines and forfeituresother	1,937
	2,080
Interest and Rents:	
Interest earned	6,332
Rents	49,809
	56,141
Other Revenue:	
Sale of assets	2,658
Contributions and donations	2
Miscellaneous/other	13,760
	16,420
Total revenues	\$ 418,280

## GENERAL FUND

## STATEMENT OF EXPENDITURES AND OTHER FINANCING USES

For the Year Ended February 29, 2004

### **EXPENDITURES:**

#### General Government:

Council:	
Personnel	\$ 6,720
Fringe benefits	544
Supplies	104
Mileage/auto	136
Education and training	935
Printing and publications	405
Other	882
	9,726
President:	7,120
Personnel	4,759
Fringe benefits	364
	5,123
Clerk:	
Personnel	28,438
Fringe benefits	3,590
Supplies	2,177
Telephone	1,505
Mileage/auto	12
Education and training	1,215
Repairs and maintenance	1,635
Other	3,406
	41,978
Audit:	71,770
Contracted services	4,273
	4,273
Board of Review:	4,273
Personnel	120
Fringe benefits	9
Timgo ochema	129
Treasurer:	129
Personnel	12,831
Fringe benefits	1,617
Supplies	260
Mileage/auto	48
Other	28
	14,784
	14,704

## GENERAL FUND

## STATEMENT OF EXPENDITURES AND OTHER FINANCING USES, continued

For the Year Ended February 29, 2004

## **EXPENDITURES**, continued:

General Government, continued:	
Elections:	
Personnel	397
Fringe benefits	17
Supplies	641
Mileage/auto	12
Education and training	25
Printing and publications	696
Other	72
	1,860
Building and Grounds:	
Personnel	1,509
Fringe benefits	203
Supplies	542
Utilities	3,892
Repairs and maintenance	616
	6,762
Attorney:	
Contracted services	16,316
	16,316
Total general government	100,951
Public Safety:	
Police:	
Personnel	132,989
Fringe benefits	34,956
Supplies	2,353
Telephone	1,535
Mileage/auto	2,833
Education and training	1,346
Repairs and maintenance	2,816
Other	30
	178,858
Protective Inspection and Regulation:	
Contracted services	1,120
	1,120
	1,120
Total public safety	179,978

## GENERAL FUND

## STATEMENT OF EXPENDITURES AND OTHER FINANCING USES, continued

For the Year Ended February 29, 2004

## **EXPENDITURES**, continued:

Public Works:	
Department of Public Works:	
Personnel	29,573
Fringe benefits	13,006
Supplies	10,718
Telephone	1,016
Mileage/auto	3,589
Education and training	180
Utilities	4,177
Repairs and maintenance	2,861
	65,120
Street Lighting:	
Utilities	22,235
	22,235
Sanitation:	
Personnel	2,110
Fringe benefits	1,333
Supplies	21
	3,464
Total public works	90,819
Community and Economic Development:	
Planning:	
Personnel	725
Fringe benefits	69
Supplies	157
Education and training	50
	1,001
Total community and economic development	1,001
•	

#### GENERAL FUND

## STATEMENT OF EXPENDITURES AND OTHER FINANCING USES, continued

For the Year Ended February 29, 2004

#### **EXPENDITURES**, continued: Recreation and Culture: Parks and Recreation: Personnel 1,969 Fringe benefits 872 Supplies 43 Repairs and maintenance 84 2,968 Total recreation and culture 2,968 Other: Insurance and Bonds: Insurance 21,735 21,735 Total other 21,735 Capital Outlay: General Government: Buildings and grounds 4,500 4,500 Public Safety: Police 837 837 Public Works: Department of Public Works 28,982 28,982 Total capital outlay 34,319 Total expenditures 431,771 OTHER FINANCING USES: Transfers to other funds 466 466 Total expenditures and other financing uses 432,237

## SPECIAL REVENUE FUNDS

## **COMBINING BALANCE SHEET**

February 29, 2004

		Major Street Fund	 Local Street Fund	1	Municipal Street Fund	Garbage Collection Fund	1	Auseum Fund	En	Drug forcement Fund	Totals
ASSETS:											
Cash and equivalents Accounts receivable Due from other	\$	161,960 -	\$ 88,758 -	\$	129,650 -	\$ 23,891 5,634	\$	8,218	\$	1,095	\$ 413,572 5,634
governmental units		5,848	1,954		_	-		-		-	7,802
Total assets	\$	167,808	\$ 90,712	\$	129,650	\$ 29,525	\$	8,218	\$	1,095	\$ 427,008
LIABILITIES AND FUND EQUITY:  Liabilities: Accounts payable Due to other funds	\$	- -	\$ - -	\$	1,897	\$ 2,360	\$	<del>-</del>	\$	- -	\$ 1,897 2,360
Total liabilities  Fund Equity: Fund balance: Unreserved: Undesignated	_	167,808	90,712		1,897 127,753	2,360 27,165		8,218		1,095	 4,257
Total fund equity		167,808	 90,712		127,753	 27,165		8,218		1,095	 422,751
Total liabilities and fund equity	\$	167,808	\$ 90,712	\$	129,650	\$ 29,525	\$	8,218	\$	1,095	\$ 427,008

## SPECIAL REVENUE FUNDS

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Major Street Fund	Local Street Fund	Municipal Street Fund	Garbage Collection Fund	Museum Fund	Drug Enforcement Fund	Totals
<b>REVENUES:</b>			· · · · · · · · · · · · · · · · · · ·		- 1112		<del></del>
Property taxes Intergovernmental:	\$ -	\$ -	\$ 64,370	\$ -	\$ -	\$ -	\$ 64,370
State grants Charges for services	61,879	19,481	-	44.400	-	-	81,360
Interest and rentals	2,212	1,046	1,243	44,490 369	55	7	44,490 4,932
Other revenue	,	-,0.0		-	2,127	_	2,127
Total revenues	64,091	20,527	65,613	44,859	2,182	7	197,279
EXPENDITURES:							
Public works	45,055	12,118	28,712	52,518	-	-	138,403
Recreation and culture	-	-	-	•	1,022	-	1,022
Capital outlay		-	-	-	1,442	-	1,442
Total expenditures	45,055	12,118	28,712	52,518	2,464	-	140,867
Excess (deficiency) of revenues over (under) expenditures	19,036	8,409	36,901	(7,659)	(282)	7	56,412
OTHER FINANCING SOURCES (USES):							
Transfer from other funds	-	_	-	-	466	-	466
Total other financing sources (uses)	-	-	-		466	-	466
Excess of revenues and other financing sources over (under) expenditure and other financing							
uses	19,036	8,409	36,901	(7,659)	184	7	56,878
Fund balances, beginning of year - restated	148,772	82,303	90,852	34,824	8,034	1,088	365,873
-	110,772	02,505	70,032	21,027	0,037	1,000	303,073
Fund balances, end of year	\$ 167,808	\$ 90,712	\$ 127,753	\$ 27,165	\$ 8,218	\$ 1,095	\$ 422,751

## ENTERPRISE FUNDS

## **COMBINING BALANCE SHEET**

February 29, 2004

Current Assets:   Cash and equivalents   S 111,737   S 576,378   S 688,115     Accounts receivable   8,246   15,252   23,498     Total current assets   119,983   591,630   711,613     Restricted Assets:   Cash and equivalents   98,008   98,008     Total restricted assets   98,008   98,008     Total restricted assets   98,008   98,008     Total restricted assets   98,008   98,008     Property, Plant, and Equipment:   291,4015     Less: accumulated depreciation   319,994   (184,226   504,220     Net property, plant, and equipment   316,895   2,092,898   2,409,793     Other Assets:   23,436,78   3,217,509   3,454,973     Total other assets   3436,878   3,217,509   3,454,973     Total other assets   3436,878   3,217,509   3,654,387     LIABILITIES AND FUND EQUITY:   2,000     Liabilities:   2,000   3,200     Due to other funds   3,200   3,200     Total current liabilities   3,200   3,200     Total liabilities   3,200   3,200     Total liabilities   3,200   3,200     Total liabilities   3,200   3,200     Total funded capital   3,200   3,200     Reserved   3,200   3,200     Total fund equity   446,878   3,217,509   3,654,387     Total fund equity   446,878   1,494,122   1,931,000     Total liabilities and fund equity   446,878   1,494,122   1,931,000		Sewer Fund			Water Fund	Totals		
Cash and equivalents Accounts receivable         \$ 111,737   \$ 576,378   \$ 23,498   \$ 3,246   \$ 15,252   \$ 23,498   \$ 3,246   \$ 15,252   \$ 23,498   \$ 3,246   \$ 15,252   \$ 23,498   \$ 3,246   \$ 3,	ASSETS:						*****	
Restricted Assets:         98,008         98,008           Total restricted assets         -         98,008         98,008           Property, Plant, and Equipment:         -         98,008         98,008           Property, Plant, and Equipment:         -         2,277,124         2,914,013           Less: accumulated depreciation         (319,994)         (184,226)         (504,220)           Net property, plant, and equipment         316,895         2,092,898         2,409,793           Other Assets:         -         434,973         434,973           Land held for development – Industrial Park         -         434,973         434,973           Total other assets         -         434,973         434,973           Total assets         \$ 436,878         \$ 3,217,509         \$ 3,654,387           LIABILITIES AND FUND EQUITY:           Current Liabilities:           Accrued expenses         \$ 2         2,000         \$ 22,000           Due to other funds         -         17,855         17,855           Current portion of long-term debt         -         109,855         109,855           Long-Term Liabilities:         -         1,613,532         1,613,532           Total long-term liabilities <td>Cash and equivalents</td> <td>\$</td> <td></td> <td>\$</td> <td></td> <td>\$</td> <td></td>	Cash and equivalents	\$		\$		\$		
Cash and equivalents         98,008         98,008           Total restricted assets         -         98,008         98,008           Property, Plant, and Equipment.         ***         2,277,124         2,914,013           Property, plant, and equipment at cost (319,994)         (184,226)         504,220           Net property, plant, and equipment         316,895         2,092,898         2,409,793           Other Assets:         ***         434,973         434,973           Total other assets         -         434,973         434,973           Total assets         -         434,973         434,973           Total other assets         -         434,973         434,973           Total other assets         -         434,973         434,973           Total sestes         ***         3,217,509         3,654,387           ***         ***         22,000         \$         3,654,387           ***         ***         ***         22,000         \$         22,000           ***         ***         ***         22,000         \$         22,000         \$         20,000         \$         10,985         10,985         10,985         10,985         10,985 <t< td=""><td>Total current assets</td><td></td><td>119,983</td><td></td><td>591,630</td><td></td><td>711,613</td></t<>	Total current assets		119,983		591,630		711,613	
Total restricted assets         -         98,008         98,008           Property, Plant, and Equipment:         Property, plant, and equipment, at cost (319,994)         2,277,124 (184,226)         2,914,013 (504,220)           Net property, plant, and equipment         316,895         2,092,898         2,409,793           Other Assets:         2         434,973         434,973           Land held for development – Industrial Park         -         434,973         434,973           Total other assets         -         434,973         434,973           Total assets         -         434,973         434,973           Total assets         -         434,973         434,973           Total sects         -         434,973         434,973           Total assets         -         436,878         3,217,509         3,654,387           LIABILITIES AND FUND EQUITY:           Current Liabilities:           Accrued expenses         -         22,000         92,000           Due to other funds         -         17,855         17,855           Current portion of long-term debt         -         70,000         70,000           Total current liabilities         -         1,613,532         1,613,532 <t< td=""><td></td><td></td><td>-</td><td></td><td>98,008</td><td></td><td>98,008</td></t<>			-		98,008		98,008	
Property, plant, and equipment, at cost         636,889         2,277,124         2,914,013           Less: accumulated depreciation         (319,994)         (184,226)         (504,220)           Net property, plant, and equipment         316,895         2,092,898         2,409,793           Other Assets:         316,895         2,092,898         2,409,793           Land held for development – Industrial Park         -         434,973         14,94,122 </td <td>Total restricted assets</td> <td></td> <td>-</td> <td></td> <td>98,008</td> <td></td> <td colspan="2"><del></del></td>	Total restricted assets		-		98,008		<del></del>	
Other Assets:         -         434,973         434,973           Total other assets         -         434,973         434,973           Total assets         \$436,878         \$3,217,509         \$3,654,387           LIABILITIES AND FUND EQUITY:           Current Liabilities:           Accrued expenses         \$-         \$22,000         \$22,000           Due to other funds         -         17,855         17,855           Current portion of long-term debt         -         70,000         70,000           Total current liabilities         -         109,855         109,855           Long-Term Liabilities:           Revenue bonds payable         -         1,613,532         1,613,532           Total long-term liabilities         -         1,613,532         1,613,532           Total liabilities         -         1,613,532         1,613,532           Total contributed capital         200,445         861,350         1,061,795           Retained Earnings:         -         98,008         98,008           Unreserved — Undesignated         236,433         534,764         771,197           Total fund equity         436,878         1,494,122         1,931,000	Property, plant, and equipment, at cost							
Land held for development – Industrial Park         -         434,973         434,973           Total other assets         -         434,973         434,973           Total assets         \$ 436,878         \$ 3,217,509         \$ 3,654,387           LIABILITIES AND FUND EQUITY:           Current Liabilities:           Accrued expenses         \$ -         \$ 22,000         \$ 22,000           Due to other funds         -         17,855         17,855           Current portion of long-term debt         -         70,000         70,000           Total current liabilities         -         109,855         109,855           Long-Term Liabilities:           Revenue bonds payable         -         1,613,532         1,613,532           Total long-term liabilities         -         1,613,532         1,613,532           Total liabilities         -         1,723,387         1,723,387           Fund Equity:           Contributed capital         200,445         861,350         1,061,795           Retained Earnings:         98,008         98,008           Unreserved – Undesignated         236,433         534,764         771,197           Total fund equity         436,878	Net property, plant, and equipment		316,895		2,092,898		2,409,793	
Total assets         \$ 436,878         \$ 3,217,509         \$ 3,654,387           LIABILITIES AND FUND EQUITY:           Current Liabilities:           Accrued expenses         \$ -         \$ 22,000         \$ 22,000           Due to other funds         -         17,855         17,855           Current portion of long-term debt         -         70,000         70,000           Total current liabilities         -         109,855         109,855           Long-Term Liabilities:           Revenue bonds payable         -         1,613,532         1,613,532           Total long-term liabilities         -         1,613,532         1,613,532           Total liabilities         -         1,723,387         1,723,387           Fund Equity:           Contributed capital         200,445         861,350         1,061,795           Retained Earnings:         -         98,008         98,008           Unreserved – Undesignated         236,433         534,764         771,197           Total fund equity         436,878         1,494,122         1,931,000			-		434,973		434,973	
LIABILITIES AND FUND EQUITY:         Current Liabilities:       3       \$ 22,000       \$ 22,000         Accrued expenses       \$ - \$ 22,000       \$ 22,000         Due to other funds       - 17,855       17,855         Current portion of long-term debt       - 70,000       70,000         Total current liabilities       - 109,855       109,855         Long-Term Liabilities:         Revenue bonds payable       - 1,613,532       1,613,532         Total long-term liabilities       - 1,613,532       1,613,532         Total liabilities       - 1,723,387       1,723,387         Fund Equity:       - 1,723,387       1,723,387         Contributed capital       200,445       861,350       1,061,795         Retained Earnings:       - 98,008       98,008         Unreserved – Undesignated       236,433       534,764       771,197         Total fund equity       436,878       1,494,122       1,931,000	Total other assets		-		434,973		434,973	
Current Liabilities:       \$ 22,000       \$ 22,000         Due to other funds       - 17,855       17,855         Current portion of long-term debt       - 70,000       70,000         Total current liabilities       - 109,855       109,855         Long-Term Liabilities:       - 1,613,532       1,613,532         Revenue bonds payable       - 1,613,532       1,613,532         Total long-term liabilities       - 1,613,532       1,613,532         Total liabilities       - 1,723,387       1,723,387         Fund Equity:         Contributed capital       200,445       861,350       1,061,795         Retained Earnings:       - 98,008       98,008         Reserved       - 98,008       98,008         Unreserved – Undesignated       236,433       534,764       771,197         Total fund equity       436,878       1,494,122       1,931,000	Total assets	\$	436,878	\$	3,217,509	\$	3,654,387	
Accrued expenses         \$         \$ 22,000         \$ 22,000           Due to other funds         -         17,855         17,855           Current portion of long-term debt         -         70,000         70,000           Total current liabilities         -         109,855         109,855           Long-Term Liabilities:         -         1,613,532         1,613,532           Revenue bonds payable         -         1,613,532         1,613,532           Total long-term liabilities         -         1,613,532         1,613,532           Total liabilities         -         1,723,387         1,723,387           Fund Equity:         -         1,723,387         1,061,795           Retained Earnings:         -         98,008         98,008           Reserved         -         98,008         98,008           Unreserved – Undesignated         236,433         534,764         771,197           Total fund equity         436,878         1,494,122         1,931,000	LIABILITIES AND FUND EQUITY:							
Long-Term Liabilities:         Revenue bonds payable       -       1,613,532       1,613,532         Total long-term liabilities       -       1,613,532       1,613,532         Total liabilities       -       1,723,387       1,723,387         Fund Equity:         Contributed capital       200,445       861,350       1,061,795         Retained Earnings:       -       98,008       98,008         Unreserved – Undesignated       236,433       534,764       771,197         Total fund equity       436,878       1,494,122       1,931,000	Accrued expenses Due to other funds	\$	- - -	\$	17,855	\$	17,855	
Revenue bonds payable       -       1,613,532       1,613,532         Total long-term liabilities       -       1,613,532       1,613,532         Total liabilities       -       1,723,387       1,723,387         Fund Equity:       Contributed capital       200,445       861,350       1,061,795         Retained Earnings:       Reserved       -       98,008       98,008         Unreserved – Undesignated       236,433       534,764       771,197         Total fund equity       436,878       1,494,122       1,931,000	Total current liabilities				109,855	109,855		
Total liabilities - 1,723,387 1,723,387  Fund Equity:  Contributed capital 200,445 861,350 1,061,795  Retained Earnings:  Reserved - 98,008 98,008  Unreserved - Undesignated 236,433 534,764 771,197  Total fund equity 436,878 1,494,122 1,931,000			₩		1,613,532		1,613,532	
Fund Equity:         Contributed capital       200,445       861,350       1,061,795         Retained Earnings:       -       98,008       98,008         Unreserved – Undesignated       236,433       534,764       771,197         Total fund equity       436,878       1,494,122       1,931,000	Total long-term liabilities		_		1,613,532		1,613,532	
Contributed capital       200,445       861,350       1,061,795         Retained Earnings:       -       98,008       98,008         Unreserved – Undesignated       236,433       534,764       771,197         Total fund equity       436,878       1,494,122       1,931,000	Total liabilities	<u></u>	•		1,723,387		1,723,387	
Unreserved – Undesignated         236,433         534,764         771,197           Total fund equity         436,878         1,494,122         1,931,000	Contributed capital Retained Earnings:		200,445		-			
Total fund equity 436,878 1,494,122 1,931,000			236,433					
	_					·	~~~~~~	
		\$		\$	<del></del>	\$		

## ENTERPRISE FUNDS

## COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

	Sewer Fund			Water Fund		Totals	
OPERATING REVENUES:							
Charges for services Penalties	\$	80,756 2,041	\$	149,377 3,872	\$	230,133 5,913	
Total operating revenues		82,797		153,249		236,046	
OPERATING EXPENSES:							
Personnel		23,337		31,314		54,651	
Fringe benefits		9,859		13,359		23,218	
Supplies		7,239		6,612		13,851	
Contracted and professional services		2,383		8,377		10,760	
Administrative expense		4,300		6,200	10,500		
Education and training		-		384		384	
Printing and publications	-		192		192		
Repair and maintenance		2,998		3,195		6,193	
Utilities		1,391		8,436		9,827	
Equipment rental		8,230		13,203		21,433	
Other expenses		<sup>*</sup> 89		164		253	
Depreciation		14,223		33,276		47,499	
Total operating expenses		74,049		124,712		198,761	
Operating income (loss)		8,748		28,537		37,285	
NON-OPERATING REVENUES (EXPENSES):							
Interest income		1,174		9,737		10,911	
Interest expense		-,		(55,469)		(55,469)	
State grants		_		748		748	
Contribution from Downtown Development Authority		-		52,695		52,695	
Total non-operating revenues (expenses)		1,174		7,711		8,885	
Net income (loss)		9,922		36,248		46,170	
Retained earnings, beginning of year		226,511		596,524		823,035	
Retained earnings, end of year	\$	236,433	\$	632,772	\$	869,205	

## ALL ENTERPRISE FUNDS

## **COMBINING STATEMENT OF CASH FLOWS**

	Sewer Fund		 Water Fund		Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss) Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	\$	8,748	\$ 28,537	\$	37,285
Depreciation Change in operating assets and liabilities which (used) provided cash:		14,223	33,276		47,499
Accounts receivable		(478)	5,544		5,066
Accrued interest payable		-	8,193		8,193
Net cash provided by (used for) operating activities		22,493	75,550		98,043
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Sale of property		-	25,165		25,165
Acquisition of fixed assets		-	(714,743)		(714,743)
Proceeds of bond issue		-	714,743		714,743
Principal paid on long-term debt		-	(20,000) (55,469)		(20,000)
Interest paid on long-term debt State grants received		-	(33,469) 748		(55,469) 748
Contribution from Downtown Development Authority		-	52,695		52,695
Net cash provided by (used for ) capital and related financing activities		-	3,139	,	3,139
CASH FLOWS FROM INVESTING ACTIVITIES:					
Receipt of interest		1,174	9,737		10,911
Net cash provided by (used for) investing activities		1,174	 9,737		10,911
Net increase (decrease) in cash and equivalents		23,667	88,426		112,093
Cash and cash equivalents, beginning of year		88,070	585,960		674,030
Cash and cash equivalents, end of year	\$	111,737	\$ 674,386	\$	786,123

## TRUST AND AGENCY FUNDS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended February 29, 2004

## PAYROLL FUND

	_	Balance 3/1/03 Additions			D	eductions	Balance 2/29/04	
ASSETS:								
Cash	\$	27,914	\$	395,127	\$	387,625	\$	35,416
LIABILITIES:								
Accounts payable Due to other funds	\$	8,464 19,450	\$	382,068 13,059	\$	387,625 -	\$	2,907 32,509
	\$	27,914	\$	395,127	\$	387,625	\$	35,416



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

## MANAGEMENT LETTER

To the Village Council Village of North Branch Lapeer County, Michigan

We have completed our audit of the combined general purpose financial statements of the Village of North Branch, as of and for the year ended February 29, 2004, and have issued our report thereon dated April 30, 2004. As part of our audit, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of such evaluation was to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that were necessary for expressing an opinion on the financial statements and to assist us in planning and performing this examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily require estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of Judgement, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village of North Branch taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

If we can be of any further assistance to you, please do not hesitate to contact us.

We express our appreciation for the courtesies and cooperation extended to us while conducting the audit.

Berthiaume & Company Certified Public Accountants

Bertheaume & Co.

April 30, 2004



60 Harrow Lane Saginaw, Michigan 48603

> (989) 791-1555 Fax (989) 791-1992

# FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council Village of North Branch Lapeer County, Michigan

We have audited the financial statements of the Village of North Branch as of and for the year ended February 29, 2004, and have issued our report thereon dated April 30, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of North Branch's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Berthiaume & Company

Certified Public Accountants

Bethiaume & Co.

April 30, 2004